

R 181440Z AUG 09
FM AMEMBASSY NASSAU
TO SECSTATE WASHDC 6590
INFO USDOC WASHDC
EC CARICOM COLLECTIVE

UNCLAS NASSAU 000487

STATE FOR WHA/CAR AND EB
SANTO DOMINGO FOR USFCS

E.O. 12958: N/A

TAGS: [BEXP](#) [ETRD](#) [ECON](#) [BF](#)

SUBJECT: PLP SLAMS FNM OVER SERVICE CUTS AS BUDGET DEBATE RAGES

REF: NASSAU 388

11. (U) SUMMARY: The 2009 GCOB budget was issued on June 8 and addressed the severe lack of government resources. The Prime Minister announced major budget cuts in nearly all ministries, cancelled programs and put a stop to all conference-related travel. In response, the PLP opposition party slammed the government for cuts to essential public services, especially in tourism, education and health services. They further criticized the government's budget for failing to generate alternative streams of revenue to combat rising public debt. The International Monetary Fund advised the GCOB to broaden its revenue base but the PM made no promises of applying this advice in the near future. END SUMMARY.

IMF REPORT ADDRESSES RISING DEBT

12. (U) The IMF suggested that the Government of The Bahamas (GCOB) strengthen administration of existing property trade taxes, review foreign direct investment incentives and shift the tax base to domestic consumption (for example, a VAT system). In response to the IMF report, the PM noted that restructuring the Custom's Department and the government's property tax relief initiative were methods to bolster collections. However, he indicated no intention to apply the tax advice, stating that the government must focus on "implementing rigorous methods of collecting revenue from existing streams before it considers expanding the treasury sources." The PM provided no response to the recommendation on foreign direct investment.

13. (U) To increase revenue for the 2009/2010 budget, the PM said the GCOB will take a \$30 million dividend from The Bahamas Telecommunications Corporation (BTC) before its sale. It will also transfer \$7 million in profit from the Central Bank of the Bahamas. These injections will be used to offset increased government capital expenditure. Additionally, the proceeds of the sale of BTC will be instrumental in financing the fiscal deficit.

SERVICES DEALT HEFTY BLOW

14. (U) The Department of Public Health was dealt another blow in addition to the budget cuts when the PM reported a delay in implementing the prescription drug plan. The plan, originally scheduled to begin July 1, was intended to increase access for pensioners and minors to medication for chronic illnesses. The PM revealed that the plan will be delayed until October. Financing for the National Youth Service was also cut, a punitive and corrective program located on the island of Andros for wayward teenage boys. The PM noted that the program may be relocated to Nassau in an effort to mitigate costs. In the meantime the GCOB plans to revise and expand the program to make it more rehabilitative and sustainable.

CRITICISM FROM THE OPPOSITION

15. (U) Opposition Member of Parliament Alfred Sears called for the PM to step down as Minister of Finance, citing former PM Sir Lynden

Pindling's decision to relinquish that ministry's responsibility during the 1990 economic crisis. Sears said the PM has failed as a minister on many issues including shielding the country's financial services from external threats, protecting CLICO policy and annuity holders, safeguarding crown land from corruption and improving revenue collection. He further stated that the budget offered no strategic vision to create new streams of government revenue. Opposition leader Perry Christie added that the government mishandled the recent nurses' strike and that cuts in key public services and ministerial areas are to the country's detriment. In response Minister of State for Finance Zhivargo Laing said that despite the reductions, all government agencies were operating with more money than the PLP government allotted them in its last budget (2006/2007).

16. (U) The opposition called for transparency in the expenditure of borrowed public funds and reporting of the exact debt-to-GDP ratio. The opposition has speculated that the figures may be higher than forecasted. MP Glenys Hanna-Martin chided the current administration for the move of the main port in Nassau from its current downtown location to Arawak Cay (about six miles west). She also cited the involvement of Deputy Prime Minister (DPM) Brent Symonette, who has personal business interests invested through the company Bahamas Hot Mix. According to the PM and DPM, the government has always done business with the company even under the previous PLP administration. They responded that the DPM's involvement did not present a conflict of interest.

COMMENT

17. (U) Despite the outcry, the budget was passed in the House and the Senate within the month, meeting the June 30th deadline. The debate brought to light the most pressing economic issues but lacked sustainable long term solutions, as recommended by the IMF, to address the deficit. The GCOB has consistently talked about the need to diversify the economy of the island nation, but it is clear that GCOB leaders are still dependent in the short term on tourism for their survival.

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